

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

May 25, 2005

Mr. David Selander, CPA  
Connelly Management, Inc.  
410 Mill Street, Suite 201  
Mt. Pleasant, South Carolina 29464

Re: AC# 3-CHS-J2 – Charleston Nursing Center, Inc.

Dear Mr. Selander:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**CHARLESTON NURSING CENTER, INC.**

**MT PLEASANT, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2003  
AC# 3-CHS-J2**

**AGREED-UPON PROCEDURES REPORT**

**ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2003	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2003 THROUGH SEPTEMBER 30, 2004	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 2002	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 24, 2005

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Charleston Nursing Center, Inc., for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Charleston Nursing Center, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

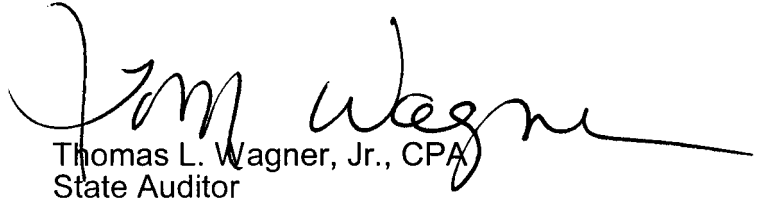
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Charleston Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report .
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Charleston Nursing Center, Inc. dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
February 24, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA  
State Auditor

**CHARLESTON NURSING CENTER, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2003  
AC# 3-CHS-J2

10/01/03-  
09/30/04

Interim Reimbursement Rate (1)	\$98.33
Adjusted Reimbursement Rate	<u>96.44</u>
Decrease in Reimbursement Rate	\$ <u><u>1.89</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

**CHARLESTON NURSING CENTER, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2003 Through September 30, 2004  
AC# 3-CHS-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$46.23	\$61.80	
Dietary		11.14	11.55	
Laundry/Housekeeping/Maintenance		<u>7.16</u>	<u>9.83</u>	
Subtotal	<u>\$5.82</u>	64.53	83.18	\$64.53
Administration & Medical Records	<u>\$4.52</u>	<u>8.94</u>	<u>13.46</u>	<u>8.94</u>
Subtotal		73.47	<u>\$96.64</u>	73.47
<u>Costs Not Subject to Standards:</u>				
Utilities		3.37		3.37
Special Services		.03		.03
Medical Supplies & Oxygen		2.72		2.72
Taxes and Insurance		4.58		4.58
Legal Fees		<u>.19</u>		<u>.19</u>
<b>TOTAL</b>		<u>\$84.36</u>		84.36
Inflation Factor (4.70%)				3.96
Cost of Capital				6.37
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.95
Cost Incentive				5.82
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.02)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$96.44</u>

**CHARLESTON NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-CHS-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$2,142,600	\$ 376 (5)	\$ 4,629 (5)	\$2,138,347
Dietary	515,614	673 (5)	819 (10)	515,468
Laundry	12,646	126 (5) 36,390 (7)	-	49,162
Housekeeping	148,743	356 (5)	-	149,099
Maintenance	148,200	226 (5)	15,556 (8)	132,870
Administration & Medical Records	446,413	462 (5) 43 (5)	33,222 (1)	413,696
Utilities	155,763	-	-	155,763
Special Services	1,227	63 (10)	-	1,290
Medical Supplies & Oxygen	126,075	2,266 (7)	2,653 (10)	125,688
Taxes and Insurance	257,722	-	43,024 (3) 3,065 (4)	211,633
Legal Fees	8,880	-	-	8,880
Cost of Capital	316,652	1,620 (8)	6,285 (2) 3,927 (6) 13,614 (9)	294,446
Subtotal	4,280,535	42,601	126,794	4,196,342
Ancillary	58,465	-	-	58,465



**CHARLESTON NURSING CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-CHS-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Nonallowable	276,984	33,222 (1) 6,285 (2) 43,024 (3) 3,065 (4) 2,367 (5) 13,614 (9) 3,409 (10)	-	381,970
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$4,615,984</u>	<u>\$147,587</u>	<u>\$126,794</u>	<u>\$4,636,777</u>
Total Patient Days	<u>46,253</u>	<u>-</u>	<u>-</u>	<u>46,253</u>
Total Beds	<u>132</u>			

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-CHS-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Administration  To reclassify interest expense HIM-15-1, Sections 202.2 and 202.3 State Plan, Attachment 4.19D	\$ 33,222	\$ 33,222
2	Nonallowable Cost of Capital  To adjust loan cost amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D	6,285	6,285
3	Nonallowable Taxes and Insurance  To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Crosswalk	43,024	43,024
4	Nonallowable Taxes and Insurance  To adjust general and property insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D	3,065	3,065
5	Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Records Nonallowable Nursing  To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D	376 673 126 356 226 462 43 2,367	4,629

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-CHS-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Fixed Assets	328,446	
	Other Equity	71,264	
	Accumulated Depreciation		395,783
	Cost of Capital		3,927
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Laundry	36,390	
	Medical Supplies	2,266	
	Other Equity		38,656
	To correct cost report income offset adjustment HIM-15-1, Section 2300 State Plan, Attachment 4.19D		
8	Fixed Assets	15,556	
	Cost of Capital	1,620	
	Maintenance		15,556
	Accumulated Depreciation		1,620
	To capitalize ceiling project HIM-15-1, Section 108 State Plan, Attachment 4.19D		
9	Nonallowable	13,614	
	Cost of Capital		13,614
	To adjust capital return State Plan, Attachment 4.19D		

**CHARLESTON NURSING CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-CHS-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Therapy	3,409 63	
	Medical Supplies		2,653
	Dietary		819
	To adjust special ancillary services reimbursed by Medicare State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>562,853</u>	\$ <u>562,853</u>

Due to the nature of compliance reporting,  
adjustment descriptions and references  
contained in the preceding Adjustment  
Report are provided for general guidance  
only and are not intended to be all-  
inclusive.

**CHARLESTON NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-CHS-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>132</u>
Deemed Asset Value	5,257,296
Improvements Since 1981	793,325
Accumulated Depreciation at 9/30/02	<u>(1,827,246)</u>
Deemed Depreciated Value	4,223,375
Market Rate of Return	<u>.0561</u>
Total Annual Return	236,931
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	236,931
Depreciation Expense	59,444
Amortization Expense	233
Capital Related Income Offsets	(2,162)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	294,446
Total Patient Days (Minimum 96% Occupancy)	<u>46,253</u>
Cost of Capital Per Diem	\$ <u><u>6.37</u></u>

**CHARLESTON NURSING CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-CHS-J2

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$4.66*
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.65</u>
Reimbursable Cost of Capital Per Diem	\$6.37
Cost of Capital Per Diem	<u>6.37</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

\* Cost of Capital and ROE Capital Per Diem as recalculated by DH&HS  
as a result of settlement agreement and communicated to the Provider  
by letter dated January 6, 1995. Previous amount was \$2.60.

2 copies of this document were published at an estimated printing cost of \$1.40 each, and a total printing cost of \$2.80. The FY 2004-05 Appropriation Act requires that this information on printing costs be added to the document.